

Application Management
Exploratory Research:
Qualitative Findings

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Application Management

***Exploratory Research:
Qualitative Findings***

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APPLICATION MANAGEMENT PRESENTATION OUTLINE

- **The Opportunity**
- **Study Objectives**
- **Study Methodology**
- **Application Management: What is it?**
- **Executive Involvement in Application Management**
- **Application Management Payoff**
- **Current Sources of Application Management**
- **Vendor Selection Criteria**
- **Vendor Recognition and Assessment**
- **Summary**



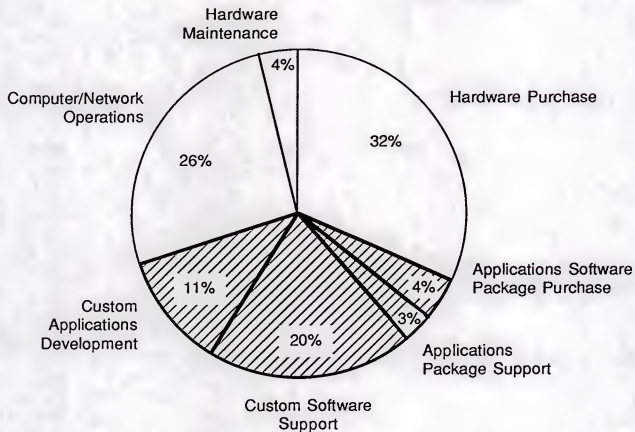
THE APPLICATION MANAGEMENT OPPORTUNITY

- **Applications-related expenditures are large**
- **Vendor penetration varies significantly,
and is especially low in software support**
- **IS budgets are flat**
- **Functional departments are assuming greater
control over applications**



Selected U.S. IT Expenditures (1992)

Total = \$465 billion

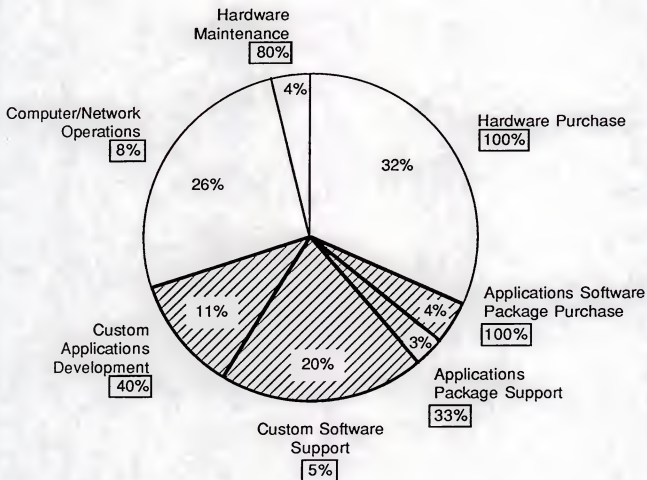


= Applications-related expenditure

Excludes: Non-application software, processing services, facilities and communications costs



Selected U.S. IT Expenditures and Percent Held by Vendors



% = Percent of revenue held by by vendors

= Applications-related expenditure

Excludes: Non-application software, processing services, facilities and communications costs



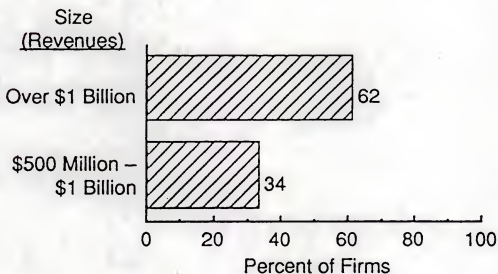
Selected U.S. Information Systems/Services Expenditures by Supplier (1992)

Expenditures by Supplier (\$ Billion)

	<u>In-House</u>	<u>Vendor</u>	<u>Total</u>	<u>Vendor %</u>
<u>Applications-Related</u>				
• Applications Packages	0	\$20	\$20 (4%)	[100%]
• Applications Package Support	10	5	15 (3%)	[30%]
• Applications Development Custom	30	20	50 (11%)	[40%]
• Custom Application Support	85	5	90 (20%)	[5%]
<u>Hardware Related</u>				
• Hardware Purchase	0	150	150 (32%)	[100%]
• Maintenance	4	16	20 (4%)	[80%]
• Operations	<u>110</u>	<u>10</u>	<u>120</u> (26%)	[8%]
TOTAL	\$239	\$226	\$465 (100%)	[49%]



USER DEPARTMENTS WITH MORE APPLICATIONS DECISION MAKING THAN IS



Source: Interviews with 67 IS departments



STUDY OBJECTIVES

- **Receptivity to service**
- **Receptivity to name ("Application Management")**
- **How is application management supplied now?
Future?**
- **Vendor recognition**
- **Differences between functional management
and IS management**



STUDY METHODOLOGY

- **Focus groups**
 - **Functional executives (two groups)**
 - **IS executives (two groups)**
- **One-on-one interviews**
- **Structured topic guide (in synch with outline)**
- **Industry focus**
 - **Manufacturing**
 - **Financial services**
 - **Telecommunications**
 - **Retail/wholesale**
 - **Hospitals**
- **Generally, over \$500 million in sales (or equivalent)**
- **Functional: Executive management and their direct reports**
- **IS: CIO or equivalent**



DIVISIONS BETWEEN APPLICATION MANAGEMENT AND OTHER PRODUCTS/SERVICES

Application Management

Packaged software
maintained/enhanced
in-house or by a
third-party vendor

Custom software
maintained/enhanced
in-house or by a
vendor

Other Products/Services

Acquiring
packaged
software

Producing
custom
software

Application-
related
training

Help desk

Packaged software
maintained/enhanced
by the software
vendor

Vendor-provided business or
processing services (e.g., payroll,
mortgage processing, credit card
processing, EDI)

Vendor outsourcing of data
center or network operations



APPLICATION MANAGEMENT: WHAT IS IT?

- **Executives are receptive to the concept of Applications Management**
 - **Functional executives see Application Management as a type of outsourcing**
 - **IS executives are nominally open to the concept, but are actually quite defensive**

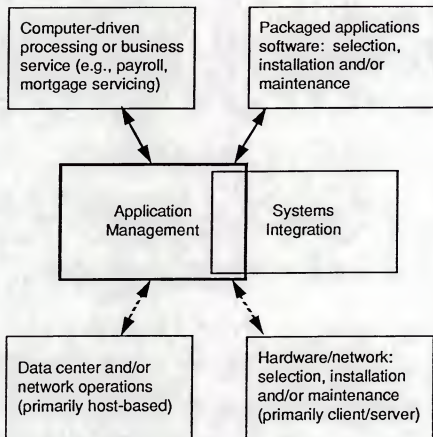


APPLICATION MANAGEMENT: WHAT IS IT? (Cont.)

- Generally, Application Management does not seem a naturally cohesive set of functions for both functional executives and IS executives.
- Application Management is seen as overlapping or linked to other IS-oriented services and solutions



Application Management Linkages



↔ Strong linkage
- - - Weaker linkage



APPLICATION MANAGEMENT: WHAT IS IT? (Cont.)

- Executives are not responsive to "Application Management" as a term.
- "Application Management" summons up few images.
- Executives have few alternatives to offer.

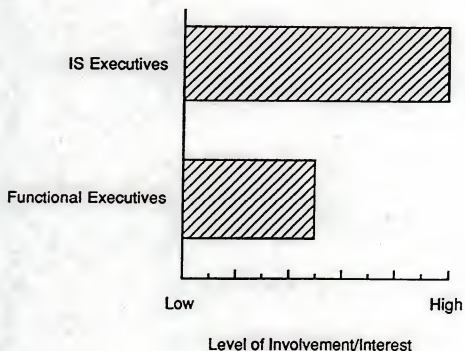


INVOLVEMENT IN APPLICATION MANAGEMENT: FUNCTIONAL AND IS EXECUTIVES

- **Functional executives: Episodic involvement**
 - **Generally low level of ongoing involvement**
 - **Delegate responsibilities inside department; and/or,**
 - **Share responsibilities with or rely on IS**
 - **Higher level of involvement if there is an immediate problem/opportunity and/or if the functional executive has an IS background or a strong interest in IS.**
- **IS executives' position is more straightforward: "It's my job".**

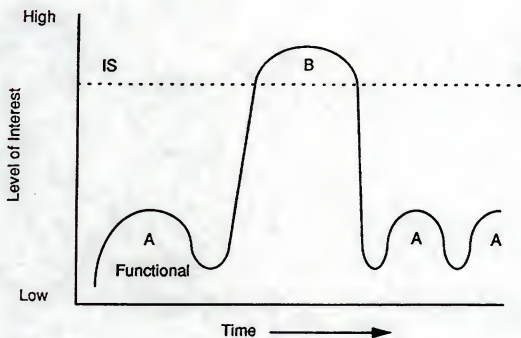


APPLICATIONS MANAGEMENT: LEVELS OF INVOLVEMENT/INTEREST





APPLICATION MANAGEMENT: TYPICAL LEVEL OF INTEREST/ INVOLVEMENT IN AN ENTERPRISE



A = Change/problem in existing application

B = Application-related opportunity



APPLICATION MANAGEMENT PAYOFF

- **For functional executives:**
 - **Keep business running**
 - **Secondarily, make significant improvements**
- **For IS executives: Keep jobs**
- **Order of magnitude improvement?**
 - **No immediate perception**
 - **Contrast to SI or computer systems outsourcing**



SOURCES OF APPLICATION MANAGEMENT

- **IS as supplier is still the rule**
- **Executives provided few examples of "pure" application management**
 - **"Body shop" maintenance**
 - **Processing services**
 - **SI plus follow-on**
- **Both kinds of executives see vendors as credible suppliers of application management services.**



VENDOR SELECTION CRITERIA

- **Critical elements (for both functional Executives and IS executives)**
 - **Industry/applications knowledge**
 - **Cost**
 - **Vendor stability**

- **Additional criteria from IS executives**
 - **Quality of people assigned to project**
 - **Technical expertise**



VENDOR RECOGNITION AND ASSESSMENT

- **Unassisted recall**
- **Based on overall SI/professional services image**
- **Mainly direct experience;
Some second-hand experience**



THREE TIERS OF RECOGNITION

Level of Identification

Vendors

1. Strong

Andersen, EDS

2. Weaker, but
widespread

IBM

3. Blurred, fragmentary

Other Big 6

DEC

CSC

Specialists



APPLICATION MANAGEMENT STRENGTHS AND WEAKNESSES

	<u>Andersen</u>	<u>EDS</u>	<u>IBM</u>
Strengths	<ul style="list-style-type: none"> . People . Industry knowledge . Ability to deliver 	<ul style="list-style-type: none"> . Industry knowledge . Ability to deliver 	<ul style="list-style-type: none"> . Resources
Weaknesses	<ul style="list-style-type: none"> . Cost . Youth 	<ul style="list-style-type: none"> . Cost . FM image 	<ul style="list-style-type: none"> . Industry knowledge . Inflexibility . Mainframe/hardware reputation . Size/responsiveness

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SUMMARY

- **The application management opportunity is coming into focus.**
- **Andersen Consulting is well-positioned to be a supplier.**



SUMMARY Cont.

- **Application Management is not clearly defined in buyers' minds.**
 - **Application management pieces are being performed, but usually not as an explicit whole.**
 - **Buyers also see application management as part of a larger selection of offerings.**
- **The payoff to application management is not well-visualized nor is it financially-driven (in contrast, for example, to systems operations outsourcing).**
- **Mid-level specifiers and gatekeepers in functional departments appear to be key to allowing vendors access to application management opportunities.**
- **IS is often well-placed to block vendors.**



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DATABASES

- Software and Services Market Forecasts
- Software and Services Vendors
- U.S. Federal Government
 - Procurement Plans (PAR)
 - Forecasts
 - Awards (FAIT)
- Commercial Application (LEADS)

CUSTOM PROJECTS

For Vendors—analyze:

- Market strategies and tactics
- Product/service opportunities
- Customer satisfaction levels
- Competitive positioning
- Acquisition targets

For Buyers—evaluate:

- Specific vendor capabilities
- Outsourcing options
- Systems plans
- Peer position

OTHER SERVICES

Acquisition/partnership searches

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